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## Briefing for DCI

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NES/AI/M

26 May 1983

Morocco

Domestic Politics

The moderate pro-Western regime of King Hassan--who is 53 years old--appears secure for the near term but will face growing domestic challenges. Deteriorating economic conditions coupled with rising expectations among the burgeoning and youthful population are sources of popular discontent.

-- There is restiveness among key groups, particularly students, the labor movement and some religious fundamentalists, who are searching for issues on which to challenge the King.

-- There is a potential for renewed civil disorder like the food-price riots in Casablanca in June 1981, in which some 100 persons died.

-- Organized opposition to the regime remains basically in disarray and demoralized, however, since the King's crackdown on leaders and rank-and-file following the Casablanca riots.

King Hassan has fairly effective security and military establishments to face these difficulties. The death of General Ahmed Dlimi, the King's intelligence and security adviser, earlier this year does not appear to have had a major effect on these forces. The King also is adept at playing off opponents against each other.

Moroccan-Algerian Relations

King Hassan and Algerian President Bendjedid met on 26 February to discuss normalization of bilateral relations that were cut in 1976 over the Western Sahara dispute. Both leaders recognize that regional stability serves their long term economic and political interests and that those interests are threatened by the Sahara dispute and the machinations of Libyan leader Qadhafi.

-- The deeply held and incompatible views on the Western Sahara issue, however, are not likely to change easily or quickly and, until solved, will continue to be a major constraint on improvement in bilateral relations.

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Western Sahara

The seven-year old dispute over Moroccan claims of sovereignty in Western Sahara is still a popular cause but the seemingly "unwinnable" war could eventually cause more trouble for the government.

-- There is some growing uneasiness regarding the impact of the war on the economy.

-- Military activity has been relatively low since the major Polisario Front attack at Guelta Zemmur in October 1981 and both Morocco and the insurgents remain unable to prevail militarily.

-- Algeria, the Front's chief supporter, is still committed to self-determination for the Polisario and insists on direct Moroccan-Polisario negotiations. Morocco appears reluctant to enter direct talks with the Front but is exploring various ways to reach a favorable settlement.

-- Renewed heavy fighting is always a possibility, but a remote one at this point. Morocco and Algeria, which has significant control over the Polisario, seem to have a tacit understanding that the status quo--minimal military activity--is acceptable and that talks may uncover areas for compromise leading to a political settlement.

Economic Situation

Morocco's economy has suffered from slow growth in recent years and a rapid rate of population increase. Double digit inflation has eroded the standard of living since 1977. Rabat's financial position has been severely weakened by its heavy dependence on foreign petroleum, several poor grain harvests, a depressed world market for phosphates--the nation's primary export--and the continuing conflict in Western Sahara.

-- A near-normal grain harvest last year helped restore the viability of the important agriculture sector following several dry years and a severe drought in 1981. Erratic rains this spring, however, will likely keep the 1983 cereal harvest to last year's level prolonging the need for heavy grain imports.

-- Morocco may not be able to secure all of the required financing needed to cover its large current account deficit and debt service obligations this year. Agreement on a new IMF Standby loan for 1983 may prove difficult. Failure to address food subsidies--a politically sensitive issue--the growing budget deficit, and insufficient progress on reducing the current account deficit have impeded progress. We believe Morocco will need about \$300 million in IMF funding in 1983.

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-- Outstanding foreign debt reached \$10 billion at the end of 1982, equivalent to two-thirds of GDP and double the 1978 level. Debt service costs reached 39 percent of receipts from exports of goods and services last year and is expected to reach 46 percent this year. Some form of debt rescheduling may be necessary in the next several years. Reduced access to financial markets will continue to curtail the Five-Year Plan (1981-1985).

-- Disbursements of Saudi aid--\$495 million in 1982--fell below the levels of the prior two years. Saudi assistance will probably continue at reduced levels, as Riyadh must come to terms with reduced oil revenues.

-- Morocco is about \$46 million in arrears to the United States for FMS payments and faces suspension of its \$23 million FMS allocation for fiscal year 1983 under the Brooke Amendment. An additional \$18 million in outstanding FMS loans must be repaid by the end of the fiscal year and about \$50 million in FY 1984.

-- The Moroccan dirham has depreciated by 19 percent against the dollar since 1 January 1982, aggravating the nation's balance-of-payments problems. Foreign exchange reserves now cover less than one week of merchandise imports.

-- Export prices and volumes for phosphates will be down again in 1983; phosphate export earnings could drop by as much as \$100 million offsetting saving from the \$5 per barrel drop in oil prices.

The economic malaise probably will continue through 1986 as financial constraints will remain acute, limiting investment and development.

-- The phosphate market is likely to tighten as the world economy rebounds, but it will be several years before Morocco reaps the benefits from its heavy investment in the domestic phosphate industry. Morocco controls about three-quarters of proven phosphate reserves.

-- Morocco's oil shale and fisheries resources--among the world's richest--provide potential for economic recovery in the late 1980s.

#### Relations with the US

Moroccan-US relations are good, but expanding bilateral ties, initially well received in Morocco, are beginning to be questioned by some Moroccans who believe that the country's material expectations are not being met.

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-- In pursuit of Moroccan interests, King Hassan often adopts foreign policies that parallel or coincide with US interests.

-- The King, during his visit to Washington in May, 1982, approved a Moroccan-US access and transit agreement for US Rapid Deployment Forces.

-- The US is a major source of military equipment for the Moroccan armed forces, but Morocco's inability to meet FMS repayment obligation may disrupt further assistance.

-- King Hassan, Chairman of the Arab League and its Fez peace committee, welcomed President Reagan's Middle East initiative and has urged other Arabs to accept it as a starting point for negotiations.



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